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U.S.-JAPAN RICE TRADE

HEARING

BEFORE THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY UNITED STATES SENATE

NINETY-NINTH CONGRESS

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UNITED STATES-JAPAN RICE TRADE

TUESDAY, OCTOBER 21, 1986

U.S. SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Sacramento, CA.

The committee met, pursuant to notice, at 11:30 a.m., in room 4203, State Capitol, Hon. Pete Wilson presiding.

Present: Senator Wilson.

STATEMENT OF HON. PETE WILSON, A U.S. SENATOR FROM CALIFORNIA

Senator WILSON. Let me welcome you to this field hearing of the Senate Committee on Agriculture, Nutrition, and Forestry.

I am very pleased to chair today's inquiry into the trade relationship between our country and Japan regarding American rice exports—or more accurately, the lack of any rice trade between our two nations.

My decision to conduct this hearing was prompted by an unfair trade complaint filed by our Nation's rice producers under section 301 of the Trade Act of 1974. This section of our trade law directs the President to: "Take all appropriate and feasible action," including the withdrawal of trade concessions or the imposition of retaliatory restrictions or to respond to any policy of a foreign country that is "unjustifiable, unreasonable, or discriminatory and burdens or restricts United States' commerce."

The petition of our rice growers seeks the opportunity for American rice exporters to sell their product in Japan.

During the past 20 years, policies implemented by the Government of Japan have barred our exporters from selling American rice in that country. Japan places quantitative limits on all rice imports and permits only its state trading enterprise, the Japan Food Agency, to buy rice.

The JFA currently purchases the majority of its rice from Japanese producers at nearly 10 times the world market price. As a result, the Japanese consumers and taxpayers are spending nearly $25 billion to prop up its rice growers and to insulate them completely from the realities of the world marketplace.

In 1985, Japan allowed imports of only 20,000 tons of rice, representing less than two-tenths of 1 percent of its domestic consumption. This negligible amount of imports, is primarily comprised of specialty rices used for liquor production, rice cakes, and other unique products, rather than the staple of the Japanese diet.

Moreover, the Japanese Government recently changed its policy allowing Japanese sailors to bring home 30 to 100 kilograms of

California rice during each transpacific voyage. The Japanese Seamen's Union protested the closure of this pathetically small window of importation, indicating that many sailors eagerly bring home California rice because its taste appeals to the Japanese.

While world rice prices have plummeted since 1981, Japanese prices have consistently risen. By refusing to play fairly, the Government of Japan has extorted ever-higer prices from its domestic consumers of rice and has inflicted eonomic injury upon Californian and other U.S. rice growers and millers.

These American rice growers, who would like to export their commodity to Japan, estimate that the Japanese import restraints on U.S. trade cost U.S. exporters as much as $1.7 billion per year.

Presently, the U.S. rice industry accounts for only 16 percent of world rice exports compared with a 25 percent share in 1981.

During that 5-year period, California rice producers suffered a 70 percent reduction in the dollar value of their exports. The dollar value changed from more than $300 million in 1981 to less than $90 million in 1985.

I'm advised that a complete liberalization of the Japanese rice market would double the volume of U.S. rice exports and quadruple their value. The elimination of Japan's unfair import ban would also benefit ricer growers in Burma, Thailand, Pakistan, and other developing countries.

California rice growers and their fellow farmers in other States are efficient producers of rice. They are ready to compete in the Japanese market if they are afforded market access. Simply stated, our rice growers are requesting access to the same level playing field in Japan as the Japanese enjoy in the United States for their exports of steel, automobiles, consumer electronics, and other consumer goods.

In my opinion, the petition which the Rice Millers' Association has filed on behalf of its members is not only justified, it is both compelling and long overdue.

For that reason, I have written to Ambassador Yeutter, our U.S. Trade Representative, urging him to accept and act upon this unfair trade complaint. In that letter, I was joined by 10 U.S. Senators from both sides of the aisle. Under the law, Ambassador Yeutter has until next Monday to make his decision.

I have reason to believe that he will make it prior to that time.

I believe that this morning's hearing will help to develop a strong record of support for a favorable ruling by the U.S. Trade Representative, and I look forward with gratitude to receiving the testimony from our distinguished witnesses this morning.

For the record, let me note that the Senate Agriculture Committee did invite both the office of the U.S Trade Representative and the Department of Agriculture to participate in this hearing. Given the increasing significance of trade issues, the U.S. Trade Representative's office is a surprisingly small agency and it's limited budget unhappily precludes his traversing the country to submit testimony.

On the other hand, I declined an offer from the U.S. Department of Agriculture to provide a staff economist who would comment upon U.S.-Japan rice trade. In my view, it doesn't take a Ph.D. in

economics to analyze nonexistent trade due to the Japanese import ban of U.S. rice.

I do regret that policymakers at USDA declined to testify today, because they all felt that they needed to remain in Washington and attend to their responsibilities. While I would not encourage any Government official to shirk his responsibilities, I believe that a critical responsibility of the leaders of the Department of Agriculture is to assure fair access for our agricultural community in other countries. The fulfillment of their responsibility would have and should have compelled their appearance at this meeting.

Additionally, the Committee on Agriculture requested testimony from the Ambassador of Japan. Last Friday, my office received a call from the Japanese Embassy declining our invitation and indicating that the Ambassador would prefer to explain his country's import ban by writing a letter.

[The following letter was received by the committee:]

EMBASSY OF JAPAN
WASHINGTON, D. C.

October 20, 1986

Dear Senator Wilson:

I thank you for your letter of October 14, informing us of the field hearing on the rice issue to be held on October 21 in Sacramento.

I regret to say, however, that, in the view of my Government, the presence of my Government representatives at such a hearing may not perhaps be appropriate.

While we are unable to be present at the hearing, we remain prepared to do our utmost to let our position be understood. Should you have any questions, we are at your service to anser them.

Sincerely yours,

Nobuo Matsunaga
Ambassador of Japan

The Honorable
Pete Wilson
United States Senate
720 Senate Hart Office Bldg.
Washington, D. C. 20510

Senator WILSON. Today, we are fortunate that the witnesses who are with us can speak with great relevance and force to the issue. I

am particularly grateful to my colleague in the Congress, the Honorable Vic Fazio, the U.S. Representative from the 4th District here in California. I know is on a very busy schedule and has other engagements. In fact, I'm sure we are making him late for a luncheon speech. I welcome him and express my gratitude to Congressman Fazio for being with us.

STATEMENT OF HON. VIC FAZIO, A REPRESENTATIVE IN CONGRESS FROM THE FOURTH DISTRICT OF CALIFORNIA

Mr. FAZIO. Thank you very much, Senator. I want to thank you for convening the hearing here in the northern valley while we're harvesting rice just a few miles from this capital.

As you know, we had hearings in the House Agriculture Subcommittee on Rice several weeks ago which were instigated by the California congressional delegation. This is even more of the effort to build a record that will be helpful in our mutual goal of making the administration, particularly the Office of the Trade Representative, well aware of the equity of our position.

As you know very well, on September 10th the Rice Millers' Association, which is represented here today, filed a petition with the U.S. Trade Representative charging that Japan's virtual ban on rice imports unfairly and unreasonably restricts U.S. commerce within the meaning of section 301 of the Trade Act.

Ambassador Yeutter must decide whether to act on the petition by October 27th—only 6 days away. As you know, Senator, this hearing is directly an effort to motivate Ambassador Yeutter to make that decision.

I must say at this point, we have not seen the kind of urgency that we had hoped for. We have not seen the position that we yearn for. Frankly, we are hearing rumors to the effect that the decision will not be favorable from our standpoint. I hate to put that on the record, but that is so frequently said in Washington these days that I think we have to make clear in this hearing that it's very likely that a decision will be made to make this into the entire GATT discussion or into the multilateral trade negotiations which, in and of themselves, I think would be a defeat for the rice industry and all those people who will be testifying here today.

As you know, this country is suffering tremendously in our agricultural export area. This last May, June, and July, for the first time in 21 years, the United States imported more agricultural products than it exported. In 1980, our net agricultural trade balance was at plus $34 billion. Now, it is negative. It is deplorable when the largest food producer in the world is buying more commodities than it's selling.

Nowhere has the drop in agriculture's exports been hit harder than in our export-oriented rice industry. Between 1981 and 1985, U.S. rice exports fell from 3 million metric tons to 1.8 million. California's rice exports saw an even greater decline: 77 percent; from 1.3 million metric tons to 300,000 metric tons.

Meanwhile, as you indicated, the Japanese Government practices a rice import policy that is blatantly protectionist and, in effect, singles out California's rice industry from a huge potential market.

Imports of foreign-grown rice to Japan totaled only two-tenths of 1 percent of the Japanese market last year, while the Nakasone government pays domestic rice growers over $2,200 per metric ton—over 10 times the world market price.

This subsidy, incidently, does not come without a high cost to Japanese consumers, who pay 10 times the going world price for a basic component of their diet.

If Japan fully liberalized its rice market the Rice Millers' Association estimates that the Japanese domestic price would fall by one-half.

With less expensive rice imports coming into the Japanese market, it's estimated consumption there would increase about 1.6 million metric tons from the current 9 million metric ton figure.

Imports would rise from that two-tenths of 1 percent to fully 37 percent of domestic consumption. Of course, the volume of U.S. rice exports could double, and our price per metric ton could go up over 100 percent. The value of U.S. rice exports would nearly quadruple from $640 million to an estimated $2.3 billion.

Access to Japan's domestic market could be especially beneficial for the thousands of efficient and highly productive rice growers in this region. While California accounts for approximately 22 percent of the entire U.S. rice production, it produces all or almost all of the short-grain rice which is so clearly preferred by Japanese consumers. In fact, as you've indicated, visitors from Japan think our California rice is superior to rice from their own country and no one can intelligently argue that we couldn't sell rice in Japan. We know the market is there. It's simply impossible for us to penetrate.

Mr. Chairman, the Rice Millers' action is timely and necessary. The Japanese have it within their power to remedy this problem. While they speak of the virtues of free trade, they practice protectionism. Instead, the Japanese could open their markets to American rice, as we do to a vast array of Japanese products. American rice producers are not asking for an advantage, just the same rules the Japanese play by—reciprocity in this instance. They want no favors, just a fair shot at a new market.

In a short time, you'll be hearing testimony from our friends representing the rice industry. They will elaborate further on this opportunity to improve our agricultural export earnings. Our overall balance of trade with Japan, as you know, is a major component of our overall trade imbalance.

I appreciate once again the fact that this hearing is going to serve as a notice to the Japanese people and to their government that they should open their doors and that the administration should work diligently to bring that about.

As you indicated in your remarks earlier to the press, we in this area are undergoing a minirecession in the high tech field. We envisioned our future in semiconductors to be the way which our economy would grow. And yet, because of the dumping of semiconductor chips in this country and the failure to adhere to prior agreements which had been reached between our two governments, we have had a recession in that industry. The jobs that were here have been reduced and the many hundreds of others that were to come have never arrived.

It's entirely appropriate, given that failure to have the transformation of our job base in this region that this hearing focus today on an area where we can produce efficiently and productively a product that should be available to all buyers in the world, not shut out of a nation with a huge trade imbalance with this country.

As you know, it is a short time, very short. Six days is not much time for us to be heard where we think it can do the most good. But I hope you'll join me in bringing about a last-minute revision, perhaps review, of the decision I fear has been made to mix this into our overall trade negotiations.

Because if that occurs, we will have to consider the efforts that you've made today and the effort that the House delegation has made a failure. We'll have to proceed in other ways, and I'm afraid that perhaps we'll be typified as protectionist because we'll want to look to retaliation. I fear we are late; that our hearing, while important, is perhaps not timely. I look forward at the same time to working with you, Senator, to diligently pursue these matters in a bipartisan and aggressive manner.

Thank you very much for letting me have the opportunity to use your forum.

Senator WILSON. Well, thank you very much for being with us, Congressman. I don't want to delay you. I know you are rushing off to a speech.

Let me ask you just one question. You've mentioned the hearing in the House. Could you give a general comment—I mentioned that I persuaded 10 of my colleagues to sign this letter with me, including two who are from nonrice growing States: Alaska and Pennsylvania. What are the sentiments in the House with respect to trade with Japan? Also, if you would, comment on the problem of the rice ban.

Mr. FAZIO. Well, I think the hearings were generated because of the interest of the California delegation. But we found a great deal of sympathy from folks representing other rice-growing areas of the country who must compete with our rice growers, essentially, for a very small market internationally. Certainly, those from Arkansas, Louisiana, Mississippi, and Texas feel very strongly about the overall problems the industry faces.

But I think it goes far beyond that. Members of the entire House of Representatives concerned about our trade imbalance—our $180 billion trade deficit—are well aware of the large component of that is a result of our problems in reaching some equilibrium with Japan—have seized upon this issue as evidence of an unfair policy, a lack of fair trade prosecution of our own Government, I suppose. I think we will find increasing sympathy and support for any action that you and I can bring about in the legislative halls. I think even additional pressure will be brought to bear on the administration on a bipartisan basis.

Senator WILSON. Thank you very much for being with us; we are grateful to you for taking the time and effort to come and testify.

Mr. FAZIO. Thank you.

Senator WILSON. Our next witness is also a representative of rice growers and he is a very distinguished member of the State Assem-

bly. I believe there is a campaign underway to change his occupation so that he can join Congressman Fazio.

Let me welcome to the witness table the Honorable Wally Herger. I might point out as he's going out the door, that Mr. Fazio and I used to be in this hall in different capacities ourselves. It's interesting to be back.

Mr. FAZIO. It was almost more fun in those days, Senator.

[Laughter.]

STATEMENT OF HON. WALLY HERGER, A CALIFORNIA STATE ASSEMBLYMAN

Mr. HERGER. Senator Wilson, on behalf of myself and my constituents and the rice growers of California, we thank you very much for holding this hearing on rice today in Sacramento.

Northern California and more specifically, the Sacramento Valley, is a major producer of high quality medium- and short-grain rice in California. Our production of these varieties, from a yield perspective, is the highest anywhere in the world. Yields typically exceed 8,000 pounds per acre, and ultimately will surpass 10,000 pounds per acre. That's equivalent to 100 hundredweights per acre. The quality of our rice is unsurpassed and our ability to produce, mill, and deliver rice into export is recognized around the world.

I represent the counties of Butte, Colusa, Sutter, and Yuba, all equally important rice-producing areas. In those counties in 1985 rice production was valued at $176,365,000 out the 340,000 acres of production.

In our rural counties, hundreds of jobs are dependent on a healthy agricultural economy. The rice industry, like all of agriculture, has been suffering in recent years from declining exports and surplus production.

It's imperative for our economic well-being that additional export volume be generated for all California farmers.

The California rice industry is aggressively seeking access to the Japanese market. As a California State Assemblyman, I strongly support the U.S. rice industry's section 301 trade complaint. I believe Congress and the administration must take a strong position on this matter; the sooner the better.

I call to your attention, since 1961, the Japanese Government has increasingly protected Japanese rice farmers from international competition. The amount of foreign rice allowed into Japan by the Japanese Food Agency represents less than two-tenths of 1 percent of total Japanese consumption.

The price of rice today in Japan is roughly 10 times the world price. Japan is virtually closed to imports of rice from the United States.

The rice growers of California are being unfairly denied access to the Japanese market.

Everytime I drive by the docks of Benicia, California and view the hundreds and hundreds of Nissan, Toyota, and Honda automobiles being unloaded for sale in America, I can't help but think about how unfair Japan is with respect to our agricultural products. We open our doors to their automobiles, electronics, and other

consumer products, but our major export product—farm produce, and in this case rice—is excluded from their market.

I don't think America can allow for the continued trade surplus with Japan of $4.5 billion that existed in July.

In my District, hundreds of farmers are near the brink of financial disaster. The rice industry has been particularly hard hit by reduced exports. These growers need the full support of their Government, including the Congress and the administration, in support of this section 301 complaint. I urge the Senate Agriculture Committee and you, as a member of the committee, to do all in your power to encourage the administration and the Office of the U.S. Trade Representative to accept the petition and to vigorously pursue the elimination of the trade barriers prohibiting U.S. rice imports into Japan.

It is time that Japan did business on an equal, fair basis with America. No double standard should be permitted. If we open our doors to Japanese products, our farmers should have equal access to the Japanese consumer.

The rice farmers in my District are asking for an opportunity to sell rice to Japan on a commercial basis. They simply need lawful market access.

The economic well being of hundreds and thousands of rural Americans is at stake. If we're to be successful, we need our Government's full support in this matter. We can't afford to wait any longer for so-called meaningful progress in trade negotiations with Japan. Now is the time for action.

Thank you.

Senator WILSON. Thank you very much, Assemblyman Herger. Your expertise as the vice-chairman of the Agriculture Committee in the Assembly makes it useful to us to know your views. I feel you've expressed them with great force and clarity.

Let me ask—the legislature, if I'm not mistaken, in this past year adopted an agricultural export promotion program. I think it came to something like $2.5 million in fiscal year 1986.

Mr. HERGER. That's correct.

Senator WILSON. Is it too early to comment on the happening of that program? It's very similar to what we have introduced as the trade title in the 1985 farm bill.

Mr. HERGER. Senator, I would say it probably is a little bit too early, but I think it indicates the direction of our State Legislature. We feel this matter to be of grave importance to our agricultural community, our number one industry in the State of California.

We feel it's very important that we be abroad, and be aggressively—being able to promote our products. But at the same time, that initiative will be of little use if we have no products within Japan to be able to promote. So, therefore, it's imperative that we have the support of our Federal Government, of the President, of the administration, of our Congress to allow us to have a product in Japan, once we have the tools there and have the offices there to help promote it within that country.

Senator WILSON. You apparently share my skepticism that it does little good for Prime Minister Nakasone to urge the Japanese people to buy American if there are no American goods in Japan for them to buy.

Mr. HERGER. I could not concur more.

Senator WILSON. Thank you very much for being here and for your very valuable testimony.

Mr. HERGER. Senator, thank you very much. And, again, we in California, our constituents, our rice growers are very appreciative for your holding this hearing today and for your support. Thank you again.

Senator WILSON. Thank you, Assemblyman Herger. I asked about the export program early because there is a parallel between what is being done at the State legislative level and what Congress has done. Apparently we have come to the same reluctant conclusion that it is necessary to fight fire with fire. Where we are denied the access and the opportunity for free and fair trade, we are prepared, if necessary, to combat the unfair trading practices that prevent it.

In Sacramento and in Washington, we will hope the message will be taken and it will be unnecessary for us to really go to what I think we all want to avoid—an all-out trade war. It is in no one's interest, but we are not able to simply sit back and turn the other cheek.

Thank you very much for being with us.

Mr. HERGER. Thank you again.

Senator WILSON. Next, we will hear from a panel of witnesses representing California rice producers.

Now let me invite to the witness table Alfred Montna, chairman of the Farmers' Rice Cooperative based here in Sacramento, Calif., and he will be accompanied by Farmers' Rice Cooperative president, Ralph Newman; Michael Cook, president of the Rice Growers Association of Sacramento, Calif., and finally, Ms. Anne Burton, an agricultural trade specialist for the California World Trade Commission based here in Sacramento.

I'm advised that we are privileged to have with us Larry Grell, chairman of the board of directors of the Rice Growers Association. Welcome, Mr. Grell, as well.

For the sake of simplicity, rather than taking ladies first, we will proceed in the order of introduction.

Mr. Montna and Mr. Newman may begin.

STATEMENT OF ALFRED MONTNA, CHAIRMAN OF THE BOARD, FARMERS' RICE COOPERATIVE, SACRAMENTO, CA

Mr. MONTNA. Thank you, Mr. Chairman.

My name is Alfred Montna. I'm a rice grower from Yuba City, Calif. I'm appearing here today as chairman of the board of Farmers' Rice Cooperative, headquartered in Sacramento, Calif.

Our rice-marketing organization represents 1,300 California rice farmers and is a major processor and marketer to a wide variety of both domestic and international markets.

Farmers' Rice Cooperative is a member of the Rice Millers' Association. We strongly support the section 301 petition seeking access to the Japanese market. We urge the committee to do all in its power to encourage the administration through the office of the U.S. Trade Representative to accept the petition and to vigorously pursue the elimination of trade barriers prohibiting U.S. rice imports into Japan.

We are especially concerned that for political expediency the petition may effectively be neutralized by referring it for resolution by a GATT tribunal. Recent history has shown that course to be ineffective in obtaining any meaningful resolution of petitions by other U.S. agricultural interests.

Some reports suggest that such a deal has already been struck between Washington and Tokyo. If that is true, then the strong statements of this administration regarding fair trade and its actions to obtain such fair trade are inconsistent.

Senator, as you so capably said, California producers are efficient producers of high-quality rice, probably the best in the world. We need equal access into the Japanese market and we should share the same access that they have into our markets.

California Calrose rice is virtually identical in all important taste and physical characteristics to that rice currently being produced and consumed in Japan. Our Calrose rice is of the very highest quality, probably consistently the best in the world.

It is efficiently processed by modern state-of-the-art Japanese milling machinery using the most stringent manufacturing and sanitation practices. Economical bulk export delivery facilities are already in place and routinely ship high-quality rice to other countries.

A wide variety of consumers with an orientation to Japanese dietary preferences all consider California rice to be at least equal to—and in many cases superior—to that currently available in the Japanese domestic market.

There is substantial underutilized rice production, handling, and processing capacity in California, largely as a result of the general conditions existing and affecting U.S. agricultural exports today.

The new marketing loan program has been of tremendous benefit to us in helping move substantial quantities of commodity credit inventories to international markets, much of it in commercial sales.

These sales should help improve the overall supply-and-demand picture and help improve grower prices. While prices are still low compared to the cost of production, California medium-grain prices have meaningfully improved since the implementation of the market loan program.

We are very aware of the concern expressed in Congress and elsewhere regarding the high cost of farm programs and especially the rice and cotton programs. We acknowledge that while the marketing loans successfully eliminate our surpluses, it is relatively—it is a relatively expensive program under which to expand production and exports.

Consequently, without new commercial markets, it appears that the rice industry may be limited indefinitely to a continuation of the substantial 35 percent acreage set-aside program that is now in effect for rice.

That condition would force producers to operate at far less than optimum efficiency and would continue the cycle of depressed farm income and asset values that are prevalent in the U.S. rice industry today.

The opportunity to sell rice to Japan on a commercial basis would effectively utilize all of our currently surplus production ca-

pacity in California. Over the longer term, we would expect an expansion of rice production in California.

I want to emphasize, however, that we face practical limitations on expansion of production in California from a wide variety of constraints, including the availability of water and environmental restrictions.

Even with unlimited access to the Japanese market, we could realistically only supply a portion of Japan's rice needs. But that portion, whatever its ultimate size, could make a substantial difference in the economics of rice production in California for years to come.

Between our projected domestic utilization of rice and the opportunity to supply high-quality commercial markets like Japan, we could well approach the point where the need for governmental funding of price support and concessional food export programs for rice could be reduced to minimal levels. California rice farmers are ready to meet the challenge and to take advantage of that opportunity. We strongly urge the committee to support the efforts of the Rice Millers Association in achieving the goal of U.S. rice exports to Japan.

Senator, thank you. On behalf of our members and myself, thank you very much for holding the hearings in California. Thank you.

Senator WILSON. Thank you very much, Mr. Montna.

Mr. Newman?

Mr. NEWMAN. Senator, I'll be happy to respond to any questions you might have. Mr. Montna has made our statement.

Senator WILSON. Alright. Mr. Cook?

Mr. COOK. Mr. Grell will make our statement.

Senator WILSON. Mr. Grell.

STATEMENT OF LARRY GRELL, CHAIRMAN, BOARD OF DIRECTORS OF THE RICE GROWERS ASSOCIATION, ACCOMPANIED BY DR. MICHAEL COOK, PRESIDENT, SACRAMENTO, CA

Mr. GRELL. Senator Wilson, thank you. It's a pleasure to be with you this morning.

My name is Larry Grell. I'm chairman of the board of the Rice Growers Association of California. We represent about 1,650 rice growers here in the Central Valley. As you've noted, I'm accompanied this morning by Dr. Cook, our CEO and president of the association.

The Rice Growers Association of California is a major processor and marketer of rice, both on a wide range of domestic products and international customers.

RGA is a member of the Rice Millers' Association. We strongly support the section 301 petition seeking access to Japan's rice market and urge the committee to do all in its power to encourage the administration to accept this petition and to virgorously pursue the elimination of trade barriers shutting U.S. rice out of Japan.

International trade is not a zero-sum game. When nations trade based on our competitive economic advantage, the size of the total economic pie increases; both the importers and the exporters benefit.

Benefits to Japan can be summarized as follows: Japanese consumers will enjoy lower prices for rice, which is a staple in every meal they eat.

Japanese consumers' real disposable income will increase, allowing additional expenditures for consumer goods.

The Japanese gross national product will increase. The burden on Japanese taxpayers will decrease.

Although the size of the economic pie in Japan will increase, the distribution of these benefits will not be uniform. Certain segments of the Japanese economy—namely, Japanese rice growers—may come under some stress.

The one-third of Japanese rice farmers who farm fulltime and are dependent on prices 10 times the world price will, of course, be worse off in the short term. However, the remaining two-thirds who are part-time farmers will see increased employment opportunities as the Japanese economy expands.

Finally, Japan would become increasingly dependent on foreign sources for the primary component of their food supply.

In summary, the Japanese economy would be far better off by allowing imports of rice both in the short as well as the long run.

The United States, especially California, would also benefit significantly from access to the Japanese rice market. For example, if California gained access to only 7 percent of the 10 million ton annual Japanese rice market, the following benefits could occur:

California production would more than match the 1981 peak-year production of 43.5 million hundredweights of rice.

Even under today's increased yields, more than all of the land idled by the 1985 farm bill could be placed back into production. The value of California exports would be increased by approximately $500 million.

Domestic rice prices would raise to somewhere in the neighborhood of the loan rate which would not significantly impact U.S. rice consumers, but would reduce the Treasury cost of the rice program and contribute to reducing the deficit.

Based on State of California data, 1,440 person-years of employment would be created and the gross income of the State would be increased by $1.3 billion through the multiplier effect on farm input suppliers, machinery dealers, truckers, millers, fuel and energy, and the secondary suppliers of these sectors.

The California rice milling industry could raise plant utilization rates from their current level of about 55 percent to that of approximately 90 percent.

Cost economies achieved through increased plant utilization would be captured by the American rice consumer in our highly competitive domestic markets.

A down-side impact of free trade in rice with Japan and a concomitant decrease in Japanese rice prices would be a decrease in the Japanese consumption of wheat.

Lower domestic rice prices in Japan would reverse in the declining trend in per capita consumption of rice and probably reverse the increasing trend in consumption of wheat. This reversal would come at the detriment of the U.S. wheat farmer.

In conclusion, I believe that on balance, trade in efficient market generates economic benefits for both parties. The national income

in both countries would be greater than in the absence of trade, and resources in both countries would be utilized more effectively.

I urge this committee to encourage the U.S. Special Trade Representative to make a determination in this case that will ultimately lead to lower food prices for Japanese consumers and also let us do what we can do best, that's grow rice.

Thank you.

Senator WILSON. Thank you very much, Mr. Grell.

Dr. Cook, do you wish to add anything?

Dr. COOK. Mr. Grell made our statement.

Senator WILSON. Thank you. Ms. Burton?

STATEMENT OF ANNE BURTON, AGRICULTURAL TRADE SPECIALIST, CALIFORNIA WORLD TRADE COMMISSION, SACRAMENTO, CA

Ms. BURTON. Thank you. On behalf of the California State World Trade Commission, I'd like to thank you, Senator, for the opportunity to comment on rice import restrictions in Japan and its effect on California agriculture.

I'll keep my comments very, very brief and submit a more detailed statement for the record in the interest of time.[1]

As you know, the commission released a comprehensive report this summer documenting agricultural trade barriers with the Pacific Rim. The report exceeds 400 pages, which demonstrates the magnitude of barriers the California farmers face.

Japanese trade barriers, I'm sorry to say, took up about 100 pages of our report. Central to Japanese protectionism is the rice policy that blocks our sales to that potentially lucrative market.

In light of our presistent trade deficit with Japan, there's no reason we should tolerate unreasonable trade restrictions that are inconsistent with the GATT.

At the heart of the Japanese farm policy is an emphasis on self-sufficiency, especially in rice—the nation's chief staple. Confronting Japan's protectionist rice policies would benefit not only California's rice industry, but could spur greater market access for other agricultural exports as well.

The commission supports the rights of our producers to pursue a 301 action under U.S. trade law. We have a great opportunity to improve market access while combatting unfair foreign trade practices.

As Ambassador Yeutter stressed on the eve of the GATT ministerial meeting at Punta del Este, export subsidies and endless trade barriers seriously distorted trade and brought world agriculture to the brink of crisis.

The rice industry's complaint provides an excellent opportunity for us to confront Japanese protectionist policies.

I hope that if the U.S.T.R. does decide next week to pursue the case, that we will see a more rapid process than we've seen with some of California agriculture's other cases, like the citrus-pasta case.

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[1] See p. 25 for the prepared statement of Ms. Burton.

We appreciate your interest, Senator Wilson, in protecting the rights of the California growers facing unfair trade restrictions, and look forward to working with you in the future on this type of action.

Thank you.

Senator WILSON. Than you very much, Ms. Burton. By the way, I feel the report that you produced is the best compendium of its kind that I have encountered. I thought so highly of it that I made certain that it came to the attention of the U.S. Senate Agriculture Committee. I presented it to them at a hearing in July.

It really is a first-class piece of work and one of great value. It documents and confirms the number of suspicions that we have been compelled to entertain.

Ms. BURTON. Thank you.

Senator WILSON. Thank you and thank you to the members of the commission. You have done an immensely valuable thing in providing that report.

Let me ask Mr. Montna and Mr. Grell to comment.

I was particularly struck by some of the comments in Mr. Grell's testimony regarding what might be done if these new markets were realized in terms of releasing the acreage that's now been set aside under the 1985 farm bill.

The acreage set-aside has been used as a tool to reduce the Federal costs of the rice program. It's been used in other commodity programs for that same purpose.

I have always opposed these acreage reduction programs because they reduce our ability to produce efficiently and they prevent us from maximizing the economies of the sale. Most of the farmers I talk to feel the same way. They haven't asked for them. They were part of the program, so they live with them. Without the ARPs, the acreage reduction programs, the rice farmer would be able to reduce his per hundredweight production costs.

Recently, the Department of Agriculture released an economic study quantifying the indirect cost of these ARPs on the suppliers, on the machinery manufacturers, and other related industries. Those, in addition to the farmer are concerned with how much acreage is in actual production. The acreage reduction programs cost our country billions of dollars in lost GNP.

Mr. Grell, I found your observations right on the mark. You have voiced what I hope and think to be true: If new markets are made available for our rice growers in the United States, that it's going to result in a very substantial increase in our volume. The estimates we have heard referred to already is that the volume will double. We could take out of the set-aside and put back into production all those acres that will contribute not only to the economy of the rice growers, but would make them even more efficient producers. This would have a very important ancillary effect from the standpoint of all the suppliers who are dependent for their livelihood upon the success of the grower.

I feel like I am preaching to the choir when I say that I think you are right, and I'm very grateful to receive your testimony with your clear statement as to what impact it would have.

Beyond that, though, I would ask this question. I don't know whether you actually quantified the cost of the 35 percent ARP on

the California rice industry. If you have, I would love to get it for the record. If you haven't I would hope that that's a chore you could get Dr. Cook to undertake.

Mr. GRELL. Sir, I think that's a number that we don't have, but Dr. Cook would be happy to take a look into the problem and see if he couldn't quantify that number for you.

Senator WILSON. Dr Cook, are you familiar with this recent USDA report on the indirect costs?

Dr. COOK. The USDA publishes a new report about every 2 days Senator Wilson, and I'm not sure I'm familiar with the one you're speaking of. We were called yesterday by the ERS of the USDA regarding doing some additional analysis of the 301 impact regarding or related to land set-asides. So, It's obvious they're doing an update on the present studies.

Senator WILSON. Similarly, Mr. Montna commented on some of the efforts that have been made. I asked Assemblyman Herger about the State program. I gather that you feel as I do, that once again, the access to new markets could made unnecessary a lot of the collateral efforts that we are taking to combat unfair trading practices, but rather than seeking aggressively to promote, we would have a market that already exists.

It seems clear—not just in terms of the Japanese seamen who are taking home this miniscule portion of rice from which they're now foreclosed—it is obvious to me as it is from your testimony, that if these markets were available, a number of the kinds of things that we are doing like the artificial response to the distortion in the marketplace would not be necessary.

Mr. MONTNA. That's correct, Senator. The California rice grower is the most efficient rice grower in the world. If he's given a chance to compete, he will compete and in all probabiity without need of assistance from the Government. And all the industries that need his support will also benefit from that.

Senator WILSON. Well, I was prepared to ask you how the Japanese rice policy has injured the rice growers, but I don't think that question is necessary. You have made it rather clear.

The question I have heard Japanese spokesmen utter is whether there is a market in Japan for American rice. I think it's clear there is.

Even if that were the question, I'm sure that you agree with me that you'd be more than willing to take the risk.

Mr. GRELL. Absolutely.

Senator WILSON. Well, I'll not detain you further. Your testimony is not only sufficiently clear, but goes beyond the direct impact and the statement of the other impacts, including the impact on Japan. I commend you, Mr. Grell and Dr. Cook, for what I think is a scrupulously objective assessment. You really let the chips fall where they may. I think, on balance, it's pretty clear, if market access were achieved, it would benefit far more Americans and Japanese than currently benefit from this very restricted, distorted, restrictive practices which so distort the marketplace.

Ms. Burton, again, I thank you. Your statement is a model of brevity. I'm not used to that in the U.S. Senate. However, I have one here that surpasses even yours for brevity.

It is, unhappily, the response of Ambassador Matsunaga. I made reference to it earlier. I knew it existed. I was not aware precisely how little of my time it would take. It says:

I thank you for your letter
. . . informing us of the field hearing on the rice issue to be held on October 21 in Sacramento.
I regret to say, however, that in the view of my Government, the presence of my Government representatives at such a hearing may not perhaps be appropriate.
We are unable to be present at the hearing. We remain prepared to do our utmost to let our position be understood. Should you have any questions, we are at your service to answer them.

Well, I intend to respond to Ambassador Matsunaga by making the record of this hearing available to him. I have many questions that I don't think he can answer by not being present, either personally or by representative.

I hope that the Japanese Government understands that we are not going to the trouble of making this record simply to fill the hours of a morning in which you could very well be busily involved in your own affairs instead of making this record.

We are serious as a matter of necessity. But I think that will come clear from actions. With respect to the actions of the U.S. Trade Representative, I am advised that a decision has not been taken but will be taken probably in advance of Monday and announced in advance of Monday.

I thank all the members of the panel. The testimony is not only very useful, but it's excellent, and I think will provide some of the clearest statements that the Trade Representative has seen. Thank you very much.

Lest I be accused of playing favorites, our second panel is not California rice producers, but they are representatives of the industry nationally.

Let me welcome to the witness table J. Stephen Gabbert, executive vice president of the Rice Millers' Association based in Arlington, VA; John Tull, chairman of the International Program Committee of the Rice Council based in Houston, TX.

Gentleman, welcome. Thank you for being with us.

STATEMENT OF JOHN TULL, CHAIRMAN, INTERNATIONAL PROGRAM COMMITTEE, RICE COUNCIL, HOUSTON, TX

Mr. TULL. Good morning, Senator, and thank you for giving us the privilege of appearing before you today.

My name is John Tull, and I'm a rice farmer from Lonoke, AK. I am a past president of the U.S. Rice Council for Market Development and am appearing here today in my capacity as chairman of the International Program Committee of that organization.

The Rice Council is a group of rice producers and is funded by the rice farmers of Arkansas, Louisiana, Mississippi, Missouri, Texas, and California for the purpose of rice promotion and market development, both nationally and internationally.

Others testifying today will cover the more technical aspects of marketing and legalities. I would like to address the principles of fairness and equal treatment.

As a lifetime rice farmer, I'm appalled that the United States continues to allow numerous Japanese industrial products—from

cars, to televisions, to VCRs—to inundate the U.S. market, when hard-working and tax-paying U.S. farmers are not allowed to sell rice to Japan.

It is my understanding that the total demand for rice in Japan is 10 million tons. I also know that those Japanese tourists and seamen who have tasted U.S. rice like it and have attempted to take it back to Japan with them, but the Japanese Government has recently barred even these small imports of U.S. rice.

There is no doubt in my mind that U.S. rice farmers could compete successfully in selling rice to Japan if we are just given the opportunity. We know that the Japanese like our rice and we know that the price of our rice is only a fraction of the current price in Japan.

Indeed, in an article appearing in a Japanese newspaper several months ago, it was reported that Japanese rice was selling in the supermarkets for 1,257 yen per pound, while the most expensive brand of California rice is currently selling for the equivalent on only 185 yen per pound.

This nearly seven-fold difference in the retail price means that the Japanese consumers would pay much less for U.S. rice and that U.S. rice farmers could sell a good deal of their product to Japan if given access to this market.

We need these sales. The U.S. rice industry is at an all-time low. In 1981, U.S. rice exports accounted for 28 percent of the total world rice exports. The U.S. share of these rice exports has been cut by almost 40 percent.

We have also been joined by the rest of the U.S. agriculture in experiencing declining exports and hard times. Total agricultural exports have declined 13 percent this year to $26.5 billion, the lowest level since 1977. And rice farmers have been particularly hard hit.

This year, we stand a real chance to increase our exports through the export orientation of the 1985 farm bill.

The new farm law is intended to provide a transition to a more market-oriented U.S. agriculture. The opening of the Japanese market to U.S. rice would speed up that transition if we're just given the opportunity.

Our rice is of the highest quality and we're efficient producers of all types of rice—long, medium, and short grain. All we want is the same access to sell in the world market that the auto, video, radio, television, and clothing manufacturers from all over the world have to sell in our markets. We seek equal treatment and fairness for our farmers.

My hometown and county of Lonoke in Arkansas is typical of the agricultural area of the U.S. We are literally on our knees. Many of my friends and neighbors have lost or will lose their homes and farms this year. It is awfully hard to explain or to accept why we are denied access to compete in a market that will, if successful, help turn this agricultural depression around.

We in the Rice Council support this section 301 effort and solicit your help and support.

Thank you.

Senator WILSON. Thank you very much, Mr. Tull. Mr. Gabbert?

Mr. GABBERT. Thank you, Mr. Chairman. With your permission, I would like to submit my statement for the record and then make some summary comments.[2]

Senator WILSON. We will see that it's printed in its entirety.

STATEMENT OF J. STEPHEN GABBERT, EXECUTIVE VICE PRESIDENT, RICE MILLERS' ASSOCIATION, ARLINGTON, VA

Mr. GABBERT. Mr. Chairman, my name is Stephen Gabbert. I'm the executive vice president of the Rice Millers' Association, which is the petitioner in this case. We filed a section 301 complaint seeking access to the Japanese rice market on September 10, 1986.

The complaint has been referenced during today's testimony several times. The function-junction date of determining disposition of this complaint is October 27.

It was mentioned by one of the witnesses—I believe the witness from the California Commission—this complaint is broader than just a rice trade issue. We view it as a major trade issue. We view it as basically a test of the commitment and the political will of our Government to pursue its own best economic interests.

We have been working on this case intensely for the last 6 weeks. What we have come to notice is that it has generated a lot of fear in Government, especially on the foreign policy side. We also have noted that the trade policy segment is supportive but is unable to properly position itself so that its support can effectively render a positive decision as far as we're concerned.

What we're seeing is the same old story we've seen time and time again. That is, where the economic interests of our country are held hostage by perceived foreign policy interests.

This has happened many times. The 1980 grain embargo is an example of this.

Pogo said that we have met the enemy and he is us. A big problem with this case is not so much Japan, but our own Government officials. That is their reluctance to take on a very difficult and very tough issue; their reluctance to recognize where our country's best interests lie.

This case has been unusual from the very beginning, because of the nature of the issue. For example, there have been no meetings of the 301 committee. Normally, this is the process in a 301 case.

The issue has been kicked up to the policy level of Government. The operating level, the staffing level, has been totally left out of it.

So, consequently, we begin to see a lot of rumors and reports arising of what's happening, but no one really knows what is happening.

There were numerous reports in the Japanese press on Saturday reporting that the U.S. Trade Representative, Ambassador Yeutter, had agreed or had made an offer to the Japanese Ambassador on Friday morning that if Japan would agree to include its rice policy in the multinational trade negotiations, which are beginning soon, the U.S. Trade Representative would reject our 301 complaint.

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[2] See p. 25 for the prepared statement of Mr. Gabbert.

We have been asked to meet with Ambassador Yeutter tomorrow at 4:00 p.m. I believe that's probably when we will be given a decision or at least offered some alternatives.

The only comment that we can make at this point is that if we are offered a package that puts us into the black hole of the MTN, the multinational trade negotiations, or what we consider the black hole of GATT, we would reject this package. We would find it totally unacceptable.

Basically what may have happened is we've been shifted out of the 301 process and folded into the GATT process, which could take many, many years as you well know, Senator, from the results or lack thereof of cases that have been brought for other products from California.

This type of agreement would hand the Government of Japan an opportunity to delay and bury the issue. In a sense, it would reward Japan for maintaining its protectionist position and encourage them to continue it.

We would essentially—we, meaning the rice industry—be denied our legal rights to pursue what we believe is a very solid case under section 301.

I think more importantly, aside from the interests of the rice industry, just from the standpoint of our country, we will have traded away a very important bargaining chip that could be used in the upcoming multinational trade negotiations.

It seems that we never learn when we're dealing with the Japanese how to be tough, how to be resolute, and how to be committed to seeking and obtaining a material change.

I was talking to an American reporter from Tokyo this morning who writes for a major American daily, who is writing an article on this issue. He was very supportive and could not understand how the Japanese could continue to maintain their food control policy, rice included, which is highly costly to the Japanese consumer. He also could not understand the position of our own Government officials and their reluctance to pursue the issue.

I asked him: "When was the last time you noticed that the Japanese have been very nervous about a U.S./Japan issue? When was the last time you ever saw the Japanese nervous about a confrontation with the United States?"

He replied: "The last time was when we had negotiations over Okinawa. We gave it away at that time also."

This issue is broader than just rice. The October 27 decision will be a signal to our trading partners, to the EC, as to whether our Government is prepared and has the commitment to tackle the tough trade issues, the real difficult ones, and is prepared to bargain for our own best interests.

Senator, we appreciate your having these hearings. You've been ahead of the trade issue; you've been ahead of the curve on this particular issue from a broader standpoint for the last 3 years. You've seen where it's heading. We think trade is going to be the hottest issue on the political and economic agenda next year. I think the positions that you have taken are the right ones. I think you will see people in general, the body politic, headed in your direction.

We essentially, Senator, need your help now. We're at the eleventh hour. If the complaint is accepted for investigation and not buried in GATT the dispute settling mechanism, it will be a significant victory, not just for rice, but for agricultural trade in general.

Perhaps it is time to invoke Wilson's golden rule, so eloquently presented last night, which I thought was an excellent speech. If I could paraphrase it, I probably won't say this as well as you do, "If you let us into your markets, we'll let you into our markets." I think it's time for that.

Thank you very much for this opportunity to testify, Senator.

Senator WILSON. Thank you very much, Mr. Gabbert. Mr. Tull I have a few questions prompted by your testimony.

Mr. Tull, as a rice grower, why are you so confident that U.S. rice growers will be a large beneficiary of open Japanese markets? I'm told by Japanese officials with whom I visited a year ago last August, that were they to grant us the access that we seek, why others would be the beneficiaries, not American exporters.

Mr. TULL. Senator, we're confident that the quality of our rice is the world's best. We're also confident that California and also the mid-South can grow the type of rice that Japan demands in their market. We would like to determine for ourselves, given the opportunity, if we're competitive or not. We feel that we are.

Again, we're not asking to be the only country to enter the Japanese rice market. We're asking them to open it up to the world. We feel that we will gain our fair share of that market if given that access.

Senator WILSON. Have you examined your competition—Burma, Thailand, and other places—in terms of their prices and still feel that the U.S. rice grower is efficient enough to be competitive?

Mr. TULL. Senator, thanks to you and the Congress, the 1985 farm bill has made us competitive with any country in the world. We can hold our own pricewise with those tools that you have given us in any market we're given access to.

Senator WILSON. Incidentally, let me ask you a question that is not at all rhetorical. Do some of those other countries that we have mentioned grow the same kind of rice; in other words, are they direct competitors in terms of producing a rice that is marketable in Japan?

Mr. TULL. Yes, sir, they are. I believe the Japanese prefer what we call the Japonica-type rice. It is grown in other parts of the world, Thailand in particular.

Mr. GABBERT. Senator, can I just comment? The sources of supply are limited in the world market for Japonica-type rice. That's just talking about rice in the aggregate quantity.

Now, when you start talking about quality, the sources are even more limited. You're talking about primarily Australia, which is limited in terms of its ability to expand production. You've got Taiwan. Taiwan is limited by an export orderly marketing agreement which the United States negotiated in 1984. You have limited production in Thailand. China could be in a position to supply a limited quantity of Japonica rice.

Basically you have to think more than just growing rice. You have to have the infrastructure that extends from harvesting to drying, milling and packaging, et cetera. I think California is pos-

tured to meet that type of demand. It has the highest productivity in the world.

Senator WILSON. If it were granted, would you see a liberalizing of market access in Japan, resulting in substantial increases in planting of this Japonica rice in these other countries?

Mr. TULL. It might, but I might also add that it would probably lead to an increase also throughout the United States, including the South, which is primarily long grain.

In other words, we are able to grow this type of rice, but it's been California's market.

Senator WILSON. In which case the supporting infrastructure, the milling facilities, and the ability to make distribution might be arguably more critical.

Mr. GABBERT. That's correct. In order to produce the high quality rice that Japan demands.

Senator WILSON. Can you tell me what the Japanese consumer must currently pay for a box of rice as compared to what U.S. consumers pay?

Mr. TULL. Sir, I believe I had that in my testimony. I converted it from kilograms to pounds. I believe I was told that the current price is 1,257 yen per pound. The most expensive brand of California rice for sale in our supermarkets is currently 185.

Senator WILSON. That's the sevenfold——

Mr. TULL. Yes, sir. On the retail level.

Senator WILSON. At retail is what I'm asking, because that's where it really comes into play in terms of the Japanese consumer: what they have to pay at the checkout stand.

In a similar vein, I'm interested in the cost to the same Japanese consumer, the taxpayer rather than the consumer, the cost of the policy—the twofold policy, both the ban on imports and the employment of the device of the Japan Food Agency. Are there any figures that indicate how much of this total subsidy is paid by the Japanese federal government, by local government, and by the consumers directly?

Mr. GABBERT. Senator, the total cost of the rice policy is about $25 billion. That would be divided by a third coming out of their national treasury; approximately another third would be coming out of the local government; another third coming out of the pockets of consumers.

Consumers end up paying the bill through taxes. The total cost of the overall food control policy is $60 billion. That's staggering sum. You can sit down and speculate as to what would happen to the Japanese economy and our trade relations if that $60 billion were allowed to be spent on other items such as lumber to build houses, and buy other American products, et cetera.

Senator WILSON. Mr. Gabbert, are you able to state for the record what has been the record of the prior negotiations of the U.S. Trade Representative's Office with the Japanese Government on this precise issue? You have not filed a 301 before.

Mr. GABBERT. We filed a section 301 complaint against Japan in 1980, but that was for third-country displacement, dumping into the export market.

This is our first 301 in terms of access. The record is somewhat muddled because we're not sure what's happened. The Government

of Japan never made a formal response. There were, however, numerous expeditions that were sent out from Tokyo to Washington to meet with all levels of our Government. These were all dubbed informal talks, contacts.

As I mentioned, there was no meeting of the 301 committee. So, the whole process has been cloaked in a very big cloud. We're not quite sure what is happening.

Senator WILSON. Your concern has been clearly expressed. At the recent meeting in Punta del Este, the Japanese Government, as I understand it, agreed to address as part of the multinational round with 91 other nations a number of agricultural trade issues, including points having to do with subsidies and nontariff barriers.

Do you take this agreement on their part as evidence that this issue has, in effect, been rolled into the next round?

Mr. GABBERT. When we met with Ambassador Yeutter about 10 days ago, he informed us that the Japanese had told him in Uruguay that they would not put their rice policy on the table at the MTN.

Senator WILSON. They said that they would not put the rice policy on?

Mr. GABBERT. He was very concerned about that because that would start the unraveling process. The French could leave wheat out. That's why I fear greatly that we may have been used as trade bait to get the Japanese rice policy included in the MTN.

Senator WILSON. Let's pursue what happens if, in fact, your 301 case were referred to the GATT for resolution. We don't have representatives of the U.S. Trade Representative here. As I indicated, I intend to submit some of the same questions that I'm going to ask you to the U.S. Trade Representative so that we may have his answers on the record.

But if a 301 case were referred, what's the typical amount of time that is likely to elapse from beginning to end?

Mr. GABBERT. Well, essentially, under the 301 process, the USTR has 12 months to decide what to do with the case. We asked that question of Ambassador Yeutter, and to Mike Smith, the Deputy STR, and their answer was that they didn't think it would take as long, and it wasn't such a bad deal. We really might like it after all. But, again, we have—

Senator WILSON. Did they explain why?

Mr GABBERT. Well, they thought that they would try very hard. That cases cited as having taken years and years to consider really the exception that the majority of cases had been moved expeditiously through GATT panels. But' we pointed out to them that even though you get a successful determination by a panel, you can still be thwarted in the GATT, as happened with grapes. We just don't have any confidence in the GATT process. We filed our complaint under section 301 because we felt that we were unreasonably being denied access; that Japan's zero import quota was a burden on U.S. commerce. We didn't want to touch the GATT. We didn't even reference the GATT in our complaint. We did that purposely.

Senator WILSON. Are you a lawyer, Mr. Gabbert?

Mr. GABBERT. No, I'm not. After your remarks last night, maybe that's an advantage.

Senator WILSON. No, actually, what I was going to ask is a question that you can probably answer in your capacity as the executive vice president of the Rice Millers' Association. It has to do with the cost of legal services. I was going to ask you what you would advise your client in this instance if you were to be asked by them, how much time will this take, what will be the potential cost to us in legal fees in time and in expense generally to successfully prosecute a GATT case as opposed to this 301 action?

Mr. GABBERT. Having paid lawyers large fees and sent their children to schools, I can answer that question. I would say probably anywhere from $250,000 on the low side to $1 million on the high side. You're talking anywhere from 2 years to maybe 8 to 10 years. Maybe longer than that.

Senator WILSON. Have you had in these preliminary discussions with Ambassador Yeutter an indication of a predictable time for this case of yours: to tramp the GATT process? Just a moment ago, you made reference that you were advised by them that they though that despite some celebrated exceptions, that the norm was significantly less.

Mr. GABBERT. I believe we heard the possibility of 2 years and that with the assurances that if there was no progress, that we possibly would refile our complaint. They would then accept it, and use that as a threat. Our response to that is why go through all that when you've already got the complaint; you've already got the bargaining chip? If you're holding aces, why give them up?

Senator WILSON. I think you used the phrase a black hole, once in your testimony. I assume that's a reference to your expectations as to the disappearance of the issue in what is a very long process without any clear promise of a clear resolution.

Mr. GABBERT. Correct. We believe strongly that the only way this issue's going to be settled is in a bilateral context with the United States sitting down and going head to head with the Japanese.

As I said earlier, we've got the aces to play. We're just simply mystified and frustrated as to why they aren't being played.

Senator WILSON. Can you think of any precedence for taking the course of action that you prefer, which is the 301 opposed to the more prolonged referral to GATT?

Mr. GABBERT. In the briefs that we're submitted to the USTR, we cited several cases where we felt that we did not have to go to the GATT. One was the Argentine soybean case. There was a recent grain case as well as the Brazilian Informatics case. We can get more detail on that. We have submitted a very lengthy brief that essentially outlined our position why we thought that we should not be folded into the GATT or sentenced to the black hole.

Senator WILSON. Well, gentlemen, I think you covered virtually all the questions that I had, and that you touched on several additional points.

I hope that this record is going to be extremely valuable to Ambassador Yeutter. I know it's been valuable to me. I intend to share it with my colleagues on the Senate Agriculture Committee.

I hope that there will be a speedy and expeditious disposition of what seems to me is an obviously valid complaint. In fact, it seems to me, this is one of the clearest cases.

But in any case, I can promise you that this hearing is not the end of my own personal interest or attention. I intend to see that there is a successful resolution, because it is clear that what is involved here is nothing less than flagrant protectionism, which ironically is being practiced by the Japanese Government at the expense of the Japanese consumer.

That's why, Mr. Tull, I wanted to get on the record, very clearly, the information which you have produced in your testimony that the Japanese housewife seeking to buy rice is going to pay seven times as much for it as an American housewife. This hardly seems fair.

It's obvious to me that it is not fair either to her or to the American rice producer.

So, gentlemen, I thank you for being here. I thank our other witnesses. You have provided us with a record that will be extremely beneficial and extremely useful to us in the future.

That concludes this hearing. We are adjourned.

[Whereupon, at 1:10 p.m., the committee adjourned, subject to call of the Chair.]

APPENDIX

STATEMENT OF ANNE C. BURTON, AGRICULTURAL TRADE SPECIALIST, CALIFORNIA STATE WORLD TRADE COMMISSION, SACRAMENTO, CA

The California State World Trade Commission appreciates the opportunity to comment on Japan's rice import restriction and its effect on California agriculture.

The California State World Trade Commission is the agency responsible for promoting exports from the nation's leading exporting state. We are committed to enhancing the international competitiveness of our industries and to developing an effective partnership between government and business.

The Commission, in a letter to U.S. Trade Representative Clayton Yeutter, urged the Administration to vigorously pursue removal of trade barriers prohibiting American rice exports to Japan. The letter was sent shortly after the rice industry filed its 301 petition, and we felt it appropriate to support producers' rights to pursue the trade action. A successful trade action against Japan's rice protections could lead the way in gaining market access for other California products. Of course the office of the USTR will access the merits of the case before deciding next week whether to pursue it.

In light of our persistent trade deficit with Japan, there is no reason we should tolerate unreasonable trade practices that are inconsistent with the GATT.

At the heart of Japanese farm policy is an emphasis on self-sufficiency, especially in the nation's chief staple, rice. Confronting Japan's protectionist rice policies would benefit not only California's $240 million rice industry, but could spur greater market access for other agricultural exports as well. Japan's barriers to California's agricultural exports are documented in a comprehensive report by The California State World Trade Commission. We need your help in confronting these trade barriers.

Removal of Japan's import restrictions could boost California's rice exports significantly. Our state's rice industry is highly dependent on exports, with about 70 percent of the crop exported annually. The state's rice exports totaled $109 million in 1985, down from the 1983 level of $150 million. California produces a medium-grain rice particularly suitable to Japanese tastes.

Japanese government programs maintain rice prices at about $1,800 per ton, ten times the price of export-ready California rice. California's price advantage increased with the recent devaluation of the dollar and intiation of U.S. farm programs designed to enhance the competitiveness of agricultural exports. We have a great opportunity to improve our export picture while combatting unfair foreign trade practices.

As Ambassador Yeutter stressed on the eve of the GATT ministerial meeting at Punta del Este, export subsidies and endless barriers to imports have caused massive disruption in free trade and brought world agriculture to the brink of crisis. The rice industry's action provides an excellent opportunity to confront Japan's protectionist policies.

STATEMENT OF J. STEPHEN GABBERT, EXECUTIVE VICE PRESIDENT, RICE MILLERS' ASSOCIATION

My name is Stephen Gabbert. I am Executive Vice President of The Rice Millers' Association (RMA), which is the petitioner in this Section 301 case involving Japanese rice import restraints. On September 10, 1986, The Rice Millers' Association filed this petition on behalf of the entire United States rice industry, including farmers, millers and exporters of rice. RMA members consist of farmer-owned cooperatives and independently-owned rice milling companies located in Arkansas, California, Florida, Louisiana, Mississippi, and Texas. Members of the farmer-owned co-

operatives belonging to the RMA grow approximately 65 percent of the rice produced in the United States. The independent rice milling companies who are RMA members, together with the farmer-owned cooperatives, account for virtually all of the rice milled in the United States. In addition, there are 23 associate members of the RMA, including the major U.S. exporters of rice. Together, RMA members and associate members account for virtually all U.S. rice exports. The RMA is speaking on behalf of the entire U.S. rice industry: we desire to obtain access to the Japanese rice market.

I have been to Japan many times over the past twelve years, and have developed a great respect for Japanese history and tradition. I have a strong admiration for the achievements of Japan's people—for their ability to work hard—for their dedication and commitment to excellence. I believe that the Japanese people are honorable and strongly motivated by a sense of fair play and justice.

We have filed this case because we are seeking justice and reciprocity in the market place. It is simply not fair for Japan to have access to the U.S. market for what it wishes to sell in this country, while Japan consistently resists liberalization of its agricultural markets in general and the rice market in particular. We do not think it is fair for the Japanese consumer to be denied the freedom of choice to buy what he or she wishes. This denial of economic liberty has profound economic consequences. The Japanese consumer pays the highest price for rice in the world—bar none. The internal price of rice in Japan is 10 times the world price. The $20–25 billion that the Japanese consumers pay annually in extra costs due to Japan's rice policy is equal to half the amount of the U.S.-Japan trade deficit. Elimination of this economic rent could provide more purchasing power for the Japanese consumer, and go a long way towards resolving the U.S.-Japan trade deficit. An increase in disposable income for all Japanese citizens would mean a higher standard of living and enhanced quality of life.

Congress, in passing the 1985 farm bill, sought to produce a more market-oriented U.S. agriculture. The entire thrust of the 1985 farm bill recognized the importance of increasing exports to restore the vitality to the U.S. farm sector. We feel that by seeking to open up new markets for U.S. rice, we are implementing the intent of Congress. With more than one third of our rice land idled, export demand must be stimulated.

The Reagan Administration has strongly enunciated a policy of seeking to promote U.S. exports rather than limiting U.S. imports of foreign goods. We endorse this stance and its corrollary that there cannot be free trade without fair trade. We do not believe that either Congress or the Administration wishes to allow Japan's blatantly unfair trade practices on rice to continue, immune from the normal rules which govern international commerce. To those who argue that rice is "too sensitive" politically and would cause a fundamental restructuring in Japanese agriculture, we would argue that such sensitivity was not similarly evident when a quarter of a million U.S. auto workers lost their jobs or earlier when the U.S. television industry was wiped out by imports from Japan. It is inconceivable to me that the Administration will listen to those who counsel that somehow Japan's rice policy is "special".

The trade deficit with Japan reached a record $50 billion last year (a figure which U.S. Ambassador to Japan, Mike Mansfield called "intolerable") and will likely reach $60 billion in 1986. Trade watchers estimate that, if left alone, the deficit will balloon to $80 billion in 1987 and an incredible $100 billion in 1988.

We believe that public opinion in the United States will no longer tolerate these burgeoning trade surpluses by Japan Incorporated. While Japan has been building up an ever larger trade surplus with the United States through the exports of rising quantities of automobiles, VCR's, and televisions, etc., U.S. agricultural and forest product exports to Japan have stagnated and begun to decline. The 17% decline in U.S. agricultural exports to Japan, from the peak $7.8 billion in 1981 to less than $6.5 billion in 1985, occurred despite intensive U.S. diplomatic efforts to gain improved access to the highly protected and regulated Japanese agricultural market. We take issue with the statement by Japanese Foreign Minister Kuranari to USDA Secretary Lyng that if Japan imported all its rice from the U.S. the import bill would come to "only $2 billion" which he described as a "petty sum" when compared with the overall U.S.-Japan trade. I realize that the perspective in Tokyo may be somewhat different, but $2 billion is not a "petty sum" to the U.S. rice industry, nor, I believe to the U.S. people.

Dr. Charles Pearson, an international economics professor at The Johns Hopkins University's School of Advanced International Studies, has estimated that complete liberalization of the Japanese rice market would double the quantity of U.S. rice exports. The estimated increase in the value of U.S. exports following liberalization

of the Japanese rice market would be $1.7 billion, and the estimated increase in the quantity of rice exports would be 2.45 million metric tons (brown rice equivalent). The U.S. could be expected to capture at least half of the estimated Japanese import market of 4.6 million tons which would result from Japan opening up its domestic rice market. This 35% increase in world trade would be the single biggest stimulus to the world rice market that has occurred in the last decade. The declining trend in world rice prices, which are at a post-World War II low in real terms and are continuing to fall, would be reversed. As a consequence, less developed countries (which account for over ⅔ of world rice exports) such as Thailand and Burma would benefit from the opening of the Japanese rice market.

The political and economic shifts in the United States have been partially mirrored in Japan. Increasingly, informed opinion in Japan has wondered why its outdated rice policy extorting urban areas, consumers, and Japanese taxpayers should continue to exist. The Japanese Government and the rice industry in Japan have been shocked in the last 6 weeks—not only by our audacious request for fair play, but, more importantly, by the widespread criticism of Japan's rice policy in the Japanese press. The domestic pressure for reform of Japan's rice policy has been accompanied by an emerging consensus that Japan needs to increase its imports. By our petition, we will be placing Japan's expressed good intentions and sense of fair play to the test.

In summary, if Japan were to fully open its market to imports, it would:

Directly put a sizeable dent in our trade deficit with Japan;

Unleash Japanese consumer purchasing power which could result in even larger imports of other U.S. goods, further improving our trade account;

Result in a fundamental shift in Japanese agricultural policy benefiting U.S. farmers producing other agricultural products;

Result in the largest expansion in world rice trade since the rise in demand from OPEC countries in the 1970's, lifting world rice prices from post-World War II lows—benefiting all rice exporting countries, especially third world countries;

Result in a dramatic improvement in the vitality of the U.S. rice industry allowing land currently idled to be put back into production and reduce federal outlays for income/price support; and

Put our other trading partners, such as the European Community, on notice that sacred cows of old (including the Common Agricultural Policy) have no defensible place in the world agricultural trade environment that the United States is seeking to create in the Uruguay Trade Round.

Our ultimate objective is the total removal of import restrictions on rice maintained by the Japanese Government. Should Japan not agree to liberalize its rice policy, we are asking President Reagan to use his authority to limit Japan's exports to the United States by an amount equivalent to our lost market opportunity, or $1.7 billion. We place our trust in President Reagan and his Trade Representative, Ambassador Clayton Yeutter, and are confident that: (1) our Section 301 complaint will be accepted for investigation on or by October 27, 1986; (2) our Section 301 complaint will not be sentenced to the "black hole" on the General Agreement on Tariffs and Trade (GATT); and (3) the provisions of Section 301 will be aggressively enforced.

Our world has changed and will continue to change even more rapidly than in the past. The United States is and will experience severe and painful structural readjustments in its agricultural and manufacturing sectors. Our country cannot and should not unilaterally bear the burden resulting from international economic and political structural changes.

In order to maintain a mature trading relationship with the United States, a relationship of give and take, Japan cannot expect to continue to remain isolated with impunity from the same economic forces of change that are surging through the United States market place. It is time for Japan to reexamine its agricultural policies of the past and make them more relevent to the present and to the future.

Thank you Senator Wilson for providing us with this opportunity to testify. We appreciate the invaluable support you have provided the U.S. rice industry.

SENATE, CALIFORNIA LEGISLATURE,
October 21, 1986.

Hon. PETE WILSON,
United States Senate,
Washington, DC.

DEAR SENATOR WILSON: You are to be commended for holding this hearing; the topic is important to this country's trade relations and vitally important to the Cali-

fornia rice industry. In all likelihood, you will be hearing convincing testimony regarding the ability and willingness of California rice producers to compete with anyone in production and marketing—on a level playing field.

As part of today's testimony, I'd like to inject a seemingly unrelated, but important, issue. California has long used a unitary method of taxing foreign corporations. That method became a bone of contention between foreign corporations, their governments and the state. You, Senator Wilson, have taken the lead role in Congress on this matter and it has been my pleasure to work with you for unitary tax reform.

Two and a half years ago, I added a new dimension to the unitary tax reform discussions: trade access. I made it clear to members of the Japanese trade delegation that my constituents had no interest in unitary tax reform; what was of interest to them was trade access for California agricultural products. After that discussion, trade access became an integral part of our debate and negotiations on unitary tax reform.

Senator Wilson, it is my opinion that the unitary tax reform bill signed into law this year is only a first step; the issue will remain before us for another four to five years. The Japanese are showing more willingness to be flexible on matters of access for our California agricultural products. As chairman of the wine caucus, you have been a leader in Congress, seeking greater access to Japanese markets for our wine. Through you efforts, wine exports to Japan have increased by 60 percent. That spirit of cooperation can and should be expanded to include increased sales of California rice.

In California we are also working through our World Trade Commission to expand trade. We are committing $5 million per year in state funds to promote California agricultural exports, and this year Governor Deukmejian has funded the opening of California trade offices in London and Tokyo.

When I came to the legislature eight years ago, I was amazed to find the state playing no role in trade matters. I pledged that we should and would get involved. The above-noted state efforts are evidence that we mean business!

Byproduct marketing and utilization are also important so that our rice industry can become more vertically integrated. For example, there are some bright prospects for cogeneration utilizing rice hulls as cogenerative fuel. Hulls have long been a serious disposal problem for the industry. Federal research and support is needed as we examined opportunity in byproduct marketing and resource utilization.

As an industry, agriculture needs to become more market-oriented and less production-oriented. In federal policy matters, I would like to see this new direction emphasized.

For many reasons the rice production future in the United States is and should be California. Our competitive advantages best serve market needs. We are at a crucial point and must not shrink from our opportunities. In closing, I say let us produce and help us market.

I thank you, Senator Wilson, for your interest in the California rice industry and your willingness to come here and listen to our story.

I look forward to working with you, the California rice industry and the Japanese to increase access for our products. You have demonstrated great leadership in this matter by holding this timely hearing.

Sincerely,

JIM NIELSEN.

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